MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2016/2017

BEC1034 –MICROECONOMICS

(All sections / Groups)

30 MAY 2017
9:00 a.m – 11:00 a.m.
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of 10 pages with:
   Section A: Forty (40) multiple-choice questions
   Section B: Three (3) structured questions

2. Answer all questions.

3. Please answer Section A in the multiple-choice answer sheet and answer Section B in the answer booklet provided.

SECTION A: MULTIPLE CHOICE QUESTIONS

Answer all questions below in the multiple-choice answer sheet (40 marks)

1. 'To get one thing we usually have to give up another thing'. This illustrates the principle that
   A. The cost of something is what you give up to get it
   B. People face trade-offs
   C. Rational people think at the margin
   D. People respond to incentives

2. Which of the following is the principle concerning how people interact?
   A. People respond to incentives
   B. Rational people think at the margin
   C. Trade can make everyone better off
   D. Society faces a short-run trade-off between inflation and unemployment

3. Governments can sometimes improve economic outcomes is the principle concerning
   A. How people interact
   B. How people make decisions
   C. How the economy as a whole works
   D. How the economy improve productivity

4. In the circular-flow diagram,
   A. Firms sell, households buy in markets for goods and services
   B. Firms sell, households buy in markets for factors of production
   C. Households hire and use factors of production
   D. Households produce and sell goods and services

5. Profit and rent are the resource payment for
   A. Capital and land respectively
   B. Capital and labour respectively
   C. Labour and land respectively
   D. Labour and capital respectively

6. If all resources are used efficiently to produce goods and services, a nation will find itself producing
   A. Inside its production possibilities frontier
   B. Outside of its production possibilities frontier
   C. Inside and outside of its production possibilities frontier
   D. Somewhere on its production possibilities frontier

Continued...

7. Which of the following would shift the production possibilities frontier to the right?
   A. An increase in unemployment rate
   B. An increase in the economic growth
   C. More efficient use of the existing resources
   D. More efficient use of the existing technology

8. Prices of fish rise during monsoon season is an example of a
   A. Negative economic statement
   B. Normative economic statement
   C. Positive economic statement
   D. Statement that contradicts one of the basic principles of economics

9. The law of demand illustrates that the higher the price of a good, other things constant,
   A. The larger the demand for that good
   B. The larger the quantity demanded of that good
   C. The smaller the quantity demanded of that good
   D. The smaller the demand for that good

10. All of the following except one are determinants of change in demand. Which is the exception?
   A. Expectations
   B. Consumer income
   C. Number of sellers
   D. Prices of related goods

11. Assume that good A and good B are complementary good. A rise in the price of good A will
   A. Increase the demand for good A
   B. Increase the demand for good B
   C. Decrease the demand for good B
   D. Decrease the demand for good A

12. If one knows that demand and supply have increased by the same amount, then one also knows that
   A. Equilibrium quantity has increased and equilibrium price is ambiguous
   B. Equilibrium quantity has increased and equilibrium price remained the same
   C. Equilibrium price has decreased and equilibrium quantity is ambiguous
   D. Equilibrium price has increased and equilibrium quantity is ambiguous

13. In which of the following cases will the total revenue increase?
   A. Demand is elastic and product price increases
   B. Demand is inelastic and product price increases
   C. Demand is inelastic and product price decreases
   D. Demand is unitary elastic and product price decreases

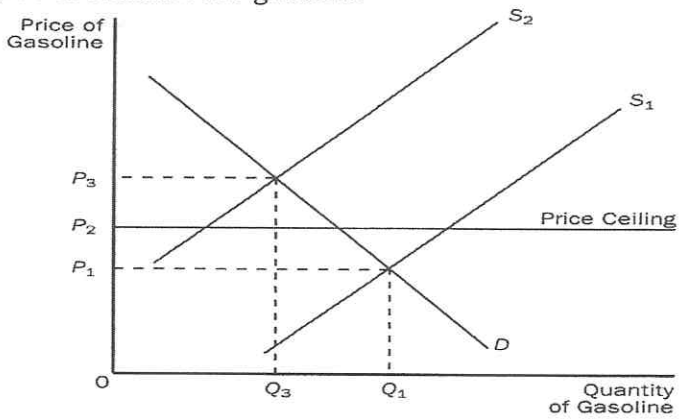
Continued...

14. Perfectly inelastic demand curve is
    A. Equal to infinity
    B. Where quantity demanded does not respond to price changes
    C. Where quantity demanded does not respond strongly to price changes
    D. Greater than one

15. The incidence of the tax falls more heavily on consumers when
    A. Demand curve is inelastic and supply curve is elastic
    B. Demand curve is elastic and supply curve is inelastic
    C. Demand and supply curves are elastic
    D. Demand and supply curves are inelastic

16. When a price floor is binding, the equilibrium price is _____.
    A. Lower than the price floor
    B. Higher than the price floor
    C. Equal to the price floor
    D. It is impossible to compare the equilibrium price with the price floor

Figure 1: Market for gasoline



17. Refer to **Figure 1**. When the price ceiling applies in this market and the supply curve for gasoline shifts from S_1 to S_2, _____.
    A. The price will increase to P3
    B. A surplus will occur at the new market price of P2
    C. The market price will stay at P1 due to the price ceiling
    D. A shortage will occur at the price ceiling of P2

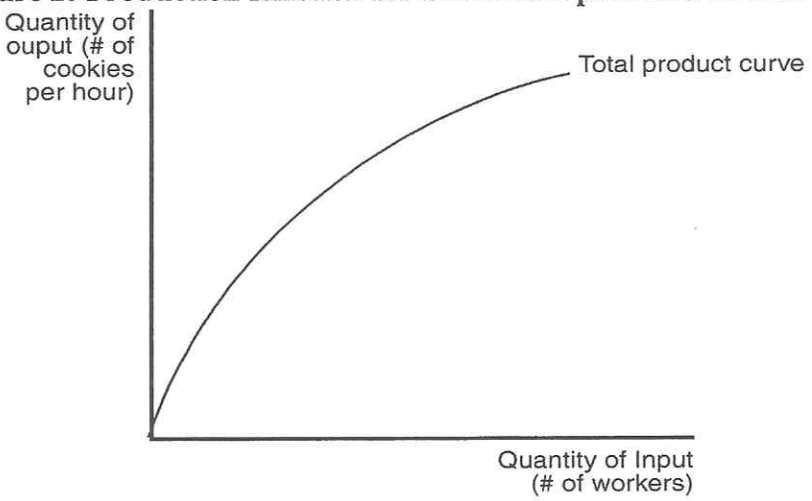
18. The labor supply curve may have a "backward bending" portion because at higher wages the
    A. Income effect is smaller than the substitution effect
    B. Income effect is larger than the substitution effect
    C. Income effect is negative
    D. Income effect is equal substitution effect

Continued...

19. A budget constraint refers to _____.
    A. Shows the purchases made by consumers
    B. Shows the consumption bundles that a consumer can afford
    C. Shows the prices that a consumer chooses to pay for products he consumes
    D. Represents the consumption bundles that give a consumer equal satisfaction

20. If a good is a Giffen good, then _____.
    A. The supply curve slopes down
    B. The demand curve slopes up
    C. The demand curve is horizontal
    D. There is no optimal level of consumption for the consumer

Figure 2: Production function for a firm that produces cookies



21. Refer to **Figure 2**. As the number of workers increases, _____.
    A. Total output increases, but at a decreasing rate
    B. Marginal product increases, but at a decreasing rate
    C. Marginal product increases at an increasing rate
    D. Total output decreases

22. When a firm's only variable input is labor, then the slope of the production function measures the _____.
    A. Quantity of labor
    B. Quantity of output
    C. Total cost
    D. Marginal product of labor

23. Fixed costs can be defined as costs that _____.
    A. Vary inversely with production
    B. Vary in proportion with production
    C. Are incurred only when production is large enough
    D. Are incurred even if nothing is produced

Continued...

24. When a firm has little ability to influence market prices it is said to be in _____.
    A. A competitive market
    B. A strategic market
    C. A monopoly market
    D. A monopolistic competition market

25. If a competitive firm is currently producing a level of output at which marginal cost exceeds marginal revenue, then _____.
    A. Average revenue exceeds marginal cost
    B. The firm is earning a positive profit
    C. A one-unit decrease in output would increase the firm's profit
    D. All of the above are correct

26. Which of the following statements regarding a competitive market is ***false***?
    A. There are many buyers and many sellers in the market
    B. Because of product differences, some firms can charge a higher price than other firms and still maintain their sales volume
    C. Firms can freely enter or exit the market
    D. Price and marginal revenue are equal

27. A firm will ***not*** shut down as long as
    A. Average revenue is less than average variable cost
    B. Total variable cost is less than total revenue
    C. Average revenue is less than average fixed cost
    D. Price is less than minimum average variable cost

28. Patent create monopolies by restricting
    A. Demand
    B. Prices
    C. Profit
    D. Entry

29. Which of the following is a feature of monopoly?
    A. Many sellers
    B. Price maker
    C. Price taker
    D. Differentiated products

30. Which of the following is not caused by a monopoly?
    A. Deadweight loss
    B. Higher producer surplus
    C. Happier consumers
    D. Lower consumer surplus

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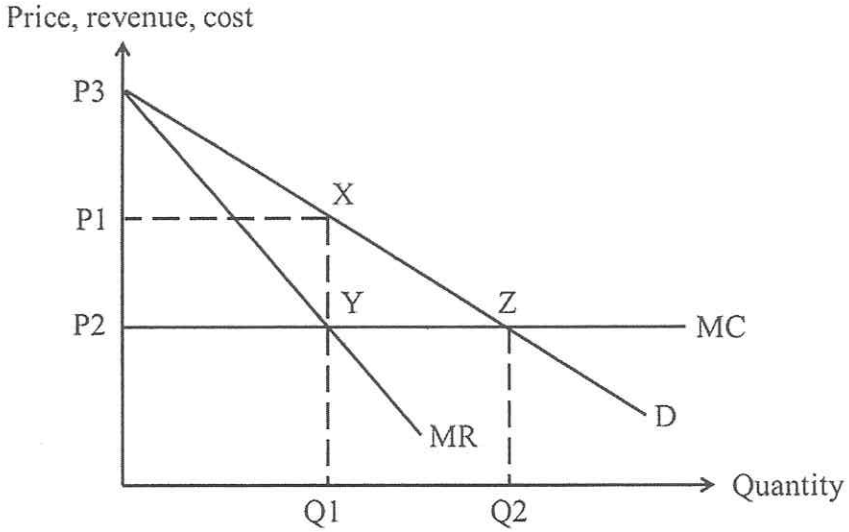
Figure 3: The price, quantity, revenue and cost of a monopoly



31. Refer to **Figure 3**. Identify the area for deadweight loss.
    A. XYZ
    B. P1P2XY
    C. P1P3X
    D. Q1Q2YZ

32. Price competition in oligopoly will
    A. Reduce market profit
    B. Hurt consumers
    C. Increase market profit if demand is inelastic
    D. Damage technical efficiency

33. Game theory proves most useful for analyzing
    A. Perfect competition
    B. Monopolistic competition
    C. Oligopoly
    D. Monopoly

34. The simplest prisoners' dilemma is a game that requires
    A. Two players who are able to communicate with each other
    B. Two players who are unable to communicate with each other
    C. At least a player with a dominant strategy
    D. An oligopoly with a dominant firm

Continued...

35. Firms in monopolistic competition make products that are
    A. Perfect complements
    B. Close but not perfect complements
    C. Perfect substitutes
    D. Close but not perfect substitutes

36. An example of an industry with monopolistic competition in Malaysia is
    A. Electricity provider
    B. Telecommunication
    C. Automobile
    D. Fast food

37. In the long run, a monopolistically competitive firm sets price equal to
    A. Average cost
    B. Marginal cost
    C. Marginal revenue
    D. Average variable cost

38. A decrease in the demand for a factor
    A. Decreases both its price and its factor income
    B. Increases both its price and its factor income
    C. Decreases its price and increases its factor income
    D. Increases its price and decreases its factor income

39. The demand for labour is called a derived demand because it depends on
    A. The wage rate
    B. The quantity of labour used
    C. The demand for the product
    D. The elasticity of the labour supply curve

40. If wage exceed the marginal revenue product, a competitive firm will
    A. Hire less labour
    B. Hire more labour
    C. Lower the product price
    D. Increase the product price

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SECTION B: STRUCTURED QUESTIONS (60 marks)

Answer all questions below in the answer booklet

Question 1

Read the following passage:

"Tobacco firms take a hit"
Local tobacco players have been hit hard by the 36% excise duty hike last November, with many lamenting that the move taken by Government was not done in a "fair" manner. And should they be imposed with another round of tax hike later this year, more pain is in store for tobacco firms, as they have a harder battle to absorb costs to sustain their businesses, says JTI International Bhd (JTI Malaysia) managing director Guilherme Silva.

Guilherme, fondly known as Gui, says while the move was taken to curb cigarette consumption, it wasn't eradicating the illegal cigarette trade. "We are working in an industry that is extremely regulated and we understand the Government's objective. "But the way it is being tackled will not solve the issue of high cigarette consumption nor help legal cigarette firms operate in such an environment," Gui tells *StarBizWeek* in an interview.

JTI Bhd, which lost its listing status after a compulsory takeover offer from its parent JTInternational Holding BV, has three cigarette brands in its portfolio – Mevius, Winston and Camel.

Source: S.Puspadevi (June 18, 2016). The Star.

Answer the following questions based on the passage above:

(a) Identify the market structure of this business.

(4 marks)

(b) With the help of a diagram, show the effect of the exercise duty on the equilibrium price and quantity of cigarette.

(5 marks)

(c) "*But the way it is being tackled will not solve the issue of high cigarette consumption nor help legal cigarette firms operate in such an environment.*" Discuss this statement with an appropriate diagram.

(7 marks)

(d) When the government imposed the exercise duty on tobacco players, the smokers also share the burden of this tax. Do you agree? Discuss.

(4 marks)
(Total: 20 marks)

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Question 2

(a) What is the different between explicit cost and implicit cost?

(3 marks)

(b) Idaman Cake House has the following cost schedules:

Quantity	Variable Cost (RM)	Total Cost (RM)
0	0	30
1	10	40
2	25	55
3	45	75
4	70	100
5	100	130
6	135	165

(i) Calculate average variable cost (AVC), average total cost (ATC) and marginal cost (MC) for each quantity. (Hint: Reproduce the table above).

(9 marks)

(ii) Based on your calculation in part (i), sketch the MC, AVC and ATC curves. Discuss the relationship between them.

(8 marks)

(Total: 20 marks)

Question 3

(a) Discuss the similarities and differences between monopoly and monopolistic competition market structure in the following context:

i. Types of products

(2 marks)

ii. Shape of the demand curve

(2 marks)

iii. Welfare-maximizing level of output (allocative efficiency)

(2 marks)

iv. Economic profits in the long run

(2 marks)

Continued...

v. Economic profits in the short run

(2 marks)

(b) Briefly explain a particularly Game Theory that reflects the oligopoly market.

(4 marks)

(c) Suppose the population of Malaysia suddenly grew because of a large immigration. Graphically explain the effect on the Malaysian labour market.

(6 marks)

(Total: 20 marks)

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